INTRODUCTORY STATEMENT

PRESS CONFERENCE

Christine Lagarde, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 23 January 2020

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

We will continue to make net purchases under our asset purchase programme (APP) at a monthly pace of €20 billion. We expect them to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Today the Governing Council also decided to launch a review of the ECB's monetary policy strategy. Further details about the scope and timetable of the review will be published in a press release today at 15:30 CET.

The incoming data since our last meeting are in line with our baseline scenario of ongoing, but moderate, growth of the euro area economy. In particular, the weakness in the manufacturing sector remains a drag on euro area growth momentum. However, ongoing, albeit decelerating, employment growth and increasing wages continue to support the resilience of the euro area economy. While inflation developments remain subdued overall, there are some signs of a moderate increase in underlying inflation in line with expectations.

The unfolding monetary policy measures are underpinning favourable financing conditions for all sectors of the economy. In particular, easier borrowing conditions for firms and households are supporting consumer spending and business investment. This will sustain the euro area expansion, the build-up of domestic price pressures and, thus, the robust convergence of inflation to our medium-term aim.

At the same time, in the light of the continued subdued inflation outlook, monetary policy has to remain highly accommodative for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. We will, therefore, closely monitor inflation developments and the impact of the unfolding monetary policy measures on the economy. Our forward guidance will ensure that financial conditions adjust in accordance with changes to the inflation outlook. In any case, the Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.3%, quarter on quarter, in the third quarter of 2019, following growth of 0.2% in the second quarter. This pattern of moderate growth reflects the ongoing weakness of international trade in an environment of continued global uncertainties, which has particularly affected the euro area manufacturing sector and has also dampened investment growth. At the same time, the services and construction sectors remain more resilient, despite some moderation in the latter half of 2019. Incoming economic data and survey information point to some stabilisation in euro area growth dynamics, with near-term growth expected to be similar to rates observed in previous quarters. Looking ahead, the euro area expansion will continue to be supported by favourable financing conditions, further employment gains in conjunction with rising wages, the mildly expansionary euro area fiscal stance and the ongoing – albeit somewhat slower – growth in global activity.

The risks surrounding the euro area growth outlook, related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets, remain tilted to the downside, but have become less pronounced as some of the uncertainty surrounding international trade is receding.

Euro area annual HICP inflation increased to 1.3% in December 2019, from 1.0% in November, reflecting mainly higher energy price inflation. On the basis of current futures prices for oil, headline inflation is likely to hover around current levels in the coming months. While indicators of inflation expectations remain at low levels, recently they have either stabilised or ticked up slightly. Measures of underlying inflation have remained generally muted, although there are further indications of a moderate increase in line with previous expectations. While labour cost pressures have strengthened amid tighter labour markets, the weaker growth momentum is delaying their pass-through to inflation. Over the medium term, inflation is expected to increase, supported by our monetary policy measures, the ongoing economic expansion and solid wage growth.

Turning to the **monetary analysis**, broad money (M3) growth stood at 5.6% in November 2019, broadly unchanged since August. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3 relative to other financial instruments. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The growth of loans to firms and households remained solid, benefiting from the ongoing support provided by our accommodative monetary policy stance, which is reflected in very low bank lending rates. While the annual growth rate of loans to households remained unchanged from October, at 3.5% in November, the annual growth rate of loans to non-financial corporations moderated to 3.4% in November, from 3.8% in October, likely reflecting some lagged reaction to the past weakening in the economy. These developments are also visible in the results of the euro area bank lending survey for the fourth quarter of 2019, which indicate weakening demand for loans to firms, while demand for loans to households for house purchase continued to increase. However, credit standards for both loans to firms and loans to households for house purchase remained broadly unchanged, pointing to still favourable credit supply conditions. Overall, our accommodative monetary policy stance will help to safeguard very favourable bank lending conditions and will continue to support access to financing across all economic sectors and in particular for small and medium-sized enterprises.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued robust convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential, supporting aggregate demand at the current juncture and reducing vulnerabilities. The implementation of **structural policies** in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. The 2019 country-specific recommendations should serve as the relevant signpost.

Regarding **fiscal policies**, the euro area fiscal stance is expected to continue to provide some support to economic activity. In view of the weak economic outlook, the Governing Council welcomes the Eurogroup’s call in December for differentiated fiscal responses and its readiness to coordinate. Governments with fiscal space should be ready to act in an effective and timely manner. In countries where public debt is high, governments need to pursue prudent policies and meet structural balance targets, which will create the conditions for automatic stabilisers to operate freely. All countries should intensify their efforts to achieve a more growth-friendly composition of public finances.

Likewise, the transparent and consistent implementation of the European Union’s fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now ready to take your questions.

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Two questions for you. Firstly, trade seems to be the order of the day or the order of the week. What do you think about the prospects of a potential trade war between the US and the EU? Does that seem more or less likely since the start of the year?

Secondly, I'd like to hear your reaction to Sweden ending its experiment with negative interest rates and whether you think that markets are assuming you don't have the potential to cut further, and they're signalling that the next rate rise will be upwards rather than downwards. Are they correct in that assumption?

President Lagarde: That's three questions in a row. Okay, on the trade front, I think you're quite right in signalling that trade is actually an important element in our considerations and particularly in assessing the downside risks. I think one critical development since our last meeting in late December has been the conclusion of phase one of the negotiations between US and China. That in and of itself has a variety of consequences. It has consequences in relation to uncertainty. It certainly has slightly reduced, if not vanished, but it also has consequences in terms of international trade at large, and indirect consequences for those regions or countries around the world from which trade will be diverted in order to deliver on that phase one. This is something that our teams are looking at very carefully to assess exactly what will be the impact on the net basis for the euro area.

In terms of the trade relationship between the US and the EU, I took some comfort from the meeting that was concluded a couple of days ago between the President of the European Union Commission, Ursula von der Leyen, with the President of the United States. While we all know that the results of those meetings are preliminary, the tone and the determination on both sides to draw positive conclusions from that meeting and to indicate determination to pursue the negotiations and the approach to the trade relationships between the EU and the US, I think, is to be taken as a positive signal. I know that the President of the Commission will be visiting the United States in February. I would expect continued work to be ongoing between the parties by then, and hopefully some positive developments out of that February visit. Clearly, we're going to monitor that very carefully and see what the signals are with due consideration for the limitation of signals relative to what the outcome of final negotiations can be.

In relation to the setting of rates, particularly by Sweden, I think I'll leave it to the Swedish central bank and to Stefan Ingves to actually indicate on what ground, for what reason there was a determination to actually return, for the moment at least, to a zero interest rate. My understanding of this conclusion is that there had been a positive outcome of that period of negative interest rates. And drawing from that, given the economic circumstances and the inflation expectations, it was legitimate and their decision to actually return to the zero rate, where they are at the moment. Every region and every country has its idiosyncrasies and rationale. I think comparisons in that respect are odious, as we all know. Clearly, everybody is going to look at what conclusions are drawn from that monetary policy reversal, if you will, in Sweden but I wouldn't draw any conclusion as far as our policies are concerned.

As I said very clearly I think in the introductory statement, the Governing Council is going to be very attentive to any and all developments in all directions, both in terms of growth but obviously in terms of inflation, which is our measurement of price stability, and will take whatever measures are necessary, as appropriate, in order to respond to our imperative to deliver on our mandate of price stability. That was a bit of a long-winded one but you had three questions in one, so it had to be long.

President Lagarde, a question about the inflation target. Do you agree with your predecessor that the inflation target should be viewed as symmetric? I'm also curious about your view on the suggestion of creating a target band around two per cent.

Then a question on the risks: you said that the risks remain tilted to the downside, but less so; was there some discussion about maybe saying that risks are now balanced?

President Lagarde: On the inflation target, we have a policy by which we operate. We have a strategy that was defined and that has inspired the policy decisions that were made and that have been made up until this day. That will continue to inspire the policy decisions that are made until a strategy has been adopted – which is a while from now but I'm sure you'll have questions about the strategy. In that respect, I would just adhere to what that strategy was, what its developments were over the course of time. I think the point of symmetry is very clearly referred to in the introductory statement. One press conference after the other, so I would refer you to that. You very gently nudged me into having a view as to whether there should be a band, as to whether there should be this, that or the other. I'm going to